2013 FIRST QUARTER REPORT
MARCH 31, 2013

SaskEnergy

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CORPORATE PROFILE

SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan Crown corporation governed by *The SaskEnergy Act*. It is a designated subsidiary of Crown Investments Corporation of Saskatchewan (CIC), which is also a Crown corporation that effectively operates as the Province's holding company for commercial Crown corporations and various commercial investments.

SaskEnergy's main business is the natural gas Distribution Utility. SaskEnergy owns and operates the Distribution Utility, which has the exclusive legislated franchise to distribute natural gas within the Province of Saskatchewan. The Provincial Cabinet regulates SaskEnergy's delivery and commodity rates. All rate changes are subject to review by the Saskatchewan Rate Review Panel, an independent ministerial advisory committee, prior to receiving Provincial Cabinet approval. SaskEnergy's corporate structure includes five wholly owned and two indirect wholly owned subsidiaries as follows:

Bayhurst Gas Limited (Bayhurst) owns, produces and sells natural gas from its storage facility in the west-central area of Saskatchewan. Bayhurst also owns a gross overriding royalty on approximately 450 properties in Saskatchewan and Alberta. Bayhurst has two wholly owned subsidiaries as follows:

Bayhurst Energy Services Corporation (BESCO) is an energy services company. BESCO owns a 50 per cent interest in a natural gas processing plant, which is carried out through a joint operation with an unrelated third party.

BG Storage Inc. (BGSI) owns a 50 per cent interest in a natural gas storage facility, which is carried out through a joint operation with an unrelated third party.

Many Islands Pipe Lines (Canada) Limited (MIPL) is a transmission company that owns several transmission pipeline interconnections to Alberta, the United States and Manitoba, all of which connect to the TransGas Limited system. MIPL is regulated by the National Energy Board.

Saskatchewan First Call Corporation (*Sask 1st Call*) provides a centralized "Call Before You Dig" underground facility screening and notification service. *Sask 1st Call* was established primarily for safety reasons to maintain a database of oil, natural gas and other underground infrastructure. *Sask 1st Call* provides a service whereby landowners and other stakeholders can request the location of pipeline and non-pipeline related facilities of its subscribers. *Sask 1st Call* operates on a break-even basis and therefore, its rate structure is designed to recoveral all operational costs.

Swan Valley Gas Corporation (SVGC) owns a natural gas distribution utility in the Swan Valley area of western Manitoba. SVGC serves customers in the towns of Swan River, Benito and Minitonas. SVGC is regulated by the Manitoba Public Utilities Board.

TransGas Limited (TransGas) owns and operates a natural gas Transmission Utility and has the exclusive legislated franchise to transport natural gas within the Province. It also owns and operates a non-franchised natural gas storage business as well as gathering and processing facilities, which are integrated with the transmission pipeline system. TransGas' transportation and storage rates are subject to Provincial Cabinet approval. TransGas has a Customer Dialogue process where business, operational and rate matters are openly discussed with a representative group of customers.

As a Crown corporation, SaskEnergy undertakes to ensure that all corporate activities are in strategic alignment with the Government of Saskatchewan's Crown Sector Priorities. Providing safe, reliable, high quality service to its customers is critically important to the Corporation – as is the provision of infrastructure necessary for the Province to grow and prosper.

VISION, MISSION AND VALUES

Vision

To create a competitive advantage for Saskatchewan through safe, innovative energy solutions.

Mission

Our team of engaged employees and business partners develops and delivers safe, reliable natural gas solutions that benefit our customers and Saskatchewan.

Values

Community
We are leaders in developing a diverse workforce, supporting our communities and environmental stewardship.
Recognition
We take time to recognize the individual and team contributions of our employees.
Spirit
We create a positive and dynamic work environment that enables personal achievement, work life balance & business success.
Safety
We never compromise the safety of our employees and the public.
Communication
We have open, honest and respectful communication that builds strong relationships.
Accountability
We are accountable for our decisions, our actions and the results.
Integrity
We are honest, respectful and apply high ethical standards.

	Three months ended March 31	
	2013	**2012**
Financial Highlights		
($ millions)		
Income before unrealized market value adjustments	**$ 57**	$ 38
Consolidated net income	**63**	2
Dividends	**7**	6
Capital expenditures	**26**	33
Total assets	**2,030**	1,899
Long-term debt	**812**	862
Debt ratio	**56.5%**	60.2%
Operating Highlights		
Distribution		
Volumes distributed (Petajoules)	**58**	48
Weather (compared to last 30 years)	**10% colder**	15% warmer
Transmission		
Volumes transported (Petajoules)	**80**	71
Peak day natural gas flows (Petajoules)	**1.20**	1.16
Date of peak flow	**January 30**	January 18

The Management's Discussion and Analysis (MD&A) highlights the primary factors that affected SaskEnergy's consolidated financial condition and results of operations for the three month period ended March 31, 2013. Using financial and operating results as its basis, the MD&A describes the Corporation's past performance and future prospects, enabling readers to view SaskEnergy from the perspective of management. For additional information related to the Corporation, refer to SaskEnergy's Annual Report for the year ended December 31, 2012. This MD&A is presented as at May 23, 2013 and should be read in conjunction with the Corporation's condensed consolidated financial statements, which have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (IFRS).

The following discussion contains certain forward-looking statements that are subject to inherent uncertainties and risks. The significant uncertainties and risks affecting the Corporation's financial condition and results of operations include natural gas prices and winter weather. All forward-looking statements reflect the Corporation's best estimates and assumptions based on information available at the time the statements were made. However, actual results and events may vary significantly from those included in, contemplated by or implied by such statements.

The volume of natural gas distributed is sensitive to variations in the weather, particularly through the prime heating season of November to March. Additionally, changes in market value adjustments may cause significant fluctuations in net income due to the volatility of natural gas prices. Therefore, the condensed consolidated financial results should not be taken as indicative of the performance to be expected for the full year.

In order to compare financial performance from period to period, the Corporation uses the following measures: income before unrealized market value adjustments, realized margin on commodity sales and realized margin on gas marketing sales. Each measure removes the impact of fair value adjustments on financial and derivative instruments and the revaluation of natural gas in storage to the lower of cost and net realizable value. These unrealized market value adjustments vary considerably with the market prices of natural gas, drive significant changes in the Corporation's consolidated net income and may obscure other business factors that are also important to understanding the Corporation's financial results. The measures referred to above are non-IFRS measures, having no standardized definition, and may not be comparable to similar measures presented by other entities.

Consolidated Financial Results

(millions)	Three months ended March 31 2013	2012	Change
Income before unrealized market value adjustments	**$ 57**	$ 38	$ 19
Impact of fair value adjustments	**(2)**	(11)	9
Revaluation of natural gas in storage	**8**	(25)	33
Consolidated net income	**$ 63**	$ 2	$ 61

The Corporation began 2013 with a strong first quarter, reporting income before unrealized market value adjustments of $57 million, a considerable improvement from 2012. The main driver of the Corporation's first quarter results was the weather, which was 10% colder than normal and 25% colder than the first quarter of 2012. The cold weather led to increased natural gas consumption, and when combined with a significantly lower average cost of commodity gas sold, resulted in a $19 million improvement in income before unrealized market value adjustments.

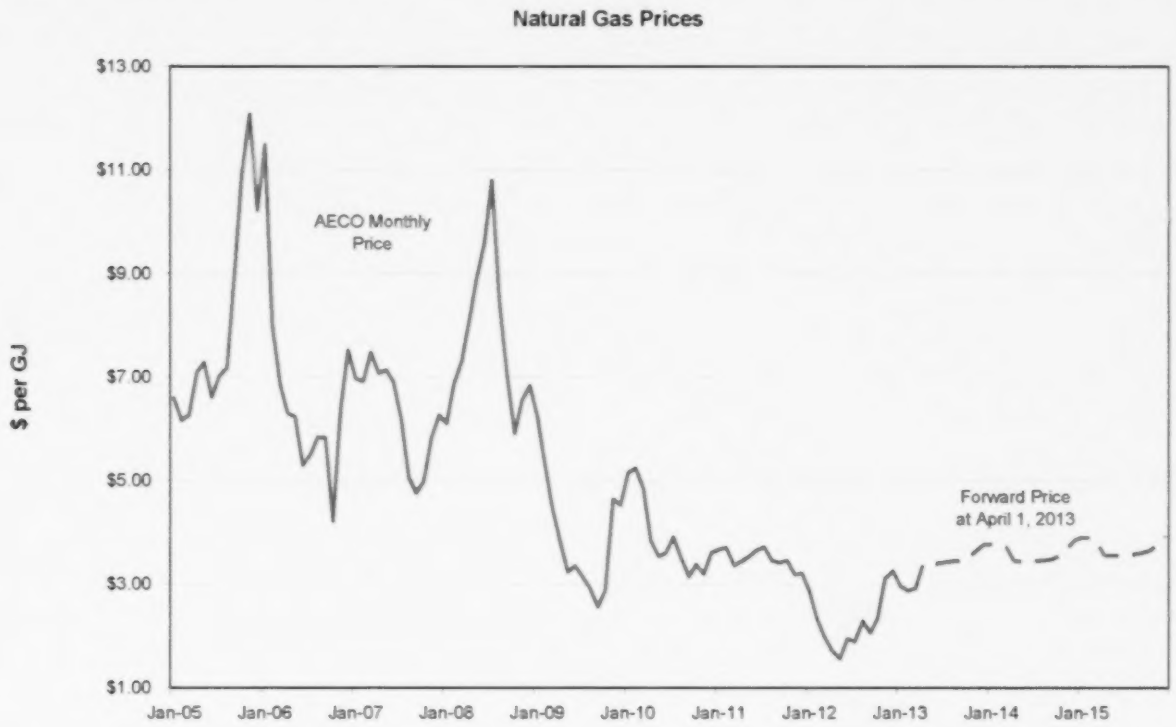
Natural gas prices continue to be a factor that can drive significant volatility, as evidenced by the $42 million change in unrealized market value adjustments on a quarter-over-quarter basis. As a result, consolidated net income of $63 million was $61 million above the first quarter of 2012.

Natural Gas Prices

Natural gas prices are set in an open market and are influenced by a number of variables including production, demand, natural gas storage levels and economic conditions. Given the high demand for natural gas to heat homes and businesses during the cold winter months and the demand for natural gas to generate incremental electricity for air conditioning in the summer, weather has the greatest impact on natural gas prices in the near term. Due to the high degree of uncertainty associated with weather, natural gas prices are typically very volatile.

Natural gas prices began the year fairly stable with abundant natural gas in storage and seasonal winter weather. However, abnormally cold weather persisted throughout March resulting in unusually large withdrawals from storage. With natural gas production in North America showing signs of slowing, near term prices began to rise.

The following chart presents AECO natural gas prices. AECO, the major natural gas hub in Canada, is located in Alberta. Most natural gas in Saskatchewan is priced at a differential to the AECO price and is usually between $0.05 per gigajoule (GJ) and $0.20 per GJ higher than AECO.



Natural Gas Sales and Purchases

Included within natural gas sales and purchases are rate-regulated commodity sales to distribution customers and non-regulated gas marketing activities. The Corporation manages these activities as distinct and separate businesses and, as such, the MD&A addresses these natural gas sales and purchases separately.

Commodity Sales to Customers

	Three months ended March 31		
(millions)	2013	2012	Change
Commodity sales	$ 96	$ 99	$ (3)
Commodity purchases	(80)	(92)	12
Realized margin on commodity sales	16	7	9
Impact of fair value adjustments	19	(19)	38
Margin (loss) on commodity sales	$ 35	$ (12)	$ 47

SaskEnergy sells natural gas to its distribution customers at a commodity rate approved by Provincial Cabinet, based on the recommendations of the Saskatchewan Rate Review Panel. The commodity rate, which is reviewed April 1 and November 1 of each year, is designed to recover the associated cost of natural gas sold to distribution customers without earning a profit or incurring a loss. For rate-setting purposes, SaskEnergy accumulates differences between the commodity revenue earned and the cost of natural gas sold in a Gas Cost Variance Account (GCVA). The balance in the GCVA, which is not recorded for financial reporting purposes, is either recovered from or refunded to customers as part of future commodity rates.

To achieve its goal of delivering stable and competitive commodity rates to its customers, SaskEnergy reduces the impact of natural gas purchase price volatility through its natural gas price risk management strategy. SaskEnergy may contract for the physical delivery of natural gas using non-financial derivatives, referred to as forward or physical natural gas contracts, to

ensure a secure supply of natural gas. The purchase price contained in these forward contracts may be either fixed or based on a variable index price. SaskEnergy may also use natural gas financial derivatives, primarily natural gas price swaps, to manage the future purchase price of natural gas. As derivative instruments, these natural gas contracts are recorded at fair value until the date of settlement. Changes in the fair value of derivative instruments, driven by changes in future natural gas prices and price differentials, are recorded in commodity purchases. Upon settlement of the natural gas contract, the amount paid or received by SaskEnergy is recorded in commodity purchases. The fair value does not necessarily represent the amount that will be paid upon settlement as illustrated in Note 5 of the condensed consolidated financial statements, which compares the fair value and the notional value (estimated future net cash flow) for the Corporation's existing derivative contracts.

During the quarter, fair value adjustments increased the margin on commodity sales by $19 million as the $48 million unfavourable fair value position at the end of 2012 improved to $29 million at the end of March 2013. Future short-term market prices improved from December 31, 2012, which narrowed the differential between the average purchase price and the average market price on natural gas purchase contracts. There was also a reduction in the volume of the Corporation's outstanding contracts given the cyclical nature of its commodity purchases. At the end of March, the average purchase price of natural gas contracts was $3.78 per GJ, compared to an average market price of $3.48 per GJ. By comparison, at the end of 2012 the average purchase price was $3.61 per GJ and the average market price was $3.21 per GJ.

The realized margin on commodity sales excludes the impact of unrealized fair value adjustments on derivative instruments. As mentioned previously, the commodity sales activity operates on a cost-recovery basis while employing rate-setting principles and a GCVA to ensure that, over the long term, no margin is earned on these activities. However, due to timing, as well as differences between IFRS and rate-setting principles, a gain or loss is commonly reported in the Corporation's consolidated financial statements. The Corporation realized a $16 million profit on commodity sales during the three month period, with average revenue of $3.80 per GJ and average cost of gas sold of $3.17 per GJ. This compared to a $7 million realized margin in 2012, with average revenue of $4.53 per GJ and average cost of gas sold of $4.22 per GJ. The Corporation last adjusted its commodity rate effective April 1, 2012, when it lowered it by 16% from $4.55 per GJ. The Corporation sets its commodity rate using the anticipated natural gas costs over the next twelve months based on rate-setting principles, as well as refunding (or recovering) a balance owing in the GCVA. The Corporation anticipates its overall natural gas costs this summer will remain within the range of the present commodity rate of $3.82 per GJ and will review its commodity rate again prior to the start of the winter heating season on November 1, 2013.

Gas Marketing Sales

	Three months ended March 31		
(millions)	2013	2012	Change
Gas marketing sales	$ 99	$ 52	$ 47
Gas marketing purchases	(90)	(41)	(49)
Realized margin on gas marketing sales	9	11	(2)
Impact of fair value adjustments	(20)	10	(30)
Revaluation of natural gas in storage	8	(25)	33
Loss on gas marketing sales	$ (3)	$ (4)	$ 1

SaskEnergy's gas marketing operations employ several different strategies, all of which attempt to optimize storage and transportation capacity available to the Corporation to earn a positive margin as well as provide a financial benefit to SaskEnergy and TransGas customers. The most significant gas marketing activity is focused on utilizing the storage capabilities of a depleted gas field in west-central Saskatchewan. The primary strategy employed involves the purchase of natural gas accompanied by a forward sales contract. The decline in natural gas market prices over the past few years has also created an opportunity for SaskEnergy to purchase relatively low-priced natural gas to inject into this storage facility with the intent to subsequently sell it at a profit. During off-peak periods the Corporation also optimizes transmission and storage capacity by purchasing and selling natural gas in the open market to generate additional margins. The margins earned on this activity benefit customers by reducing pressure on transmission and distribution rates. Lastly, SaskEnergy provides natural gas supply options to larger end-use customers in Saskatchewan through non-regulated contract sales.

Transactions undertaken through the Corporation's gas marketing strategies result in exposure to risk, especially given the volatility of natural gas market prices. Similar to the discussion regarding commodity sales, the Corporation may enter into various natural gas contracts in order to manage natural gas price risk for its gas marketing activities. These natural gas contracts are derivative instruments and, as such, are recorded at fair value until the date of settlement. Changes in fair value are recorded in either gas marketing sales or gas marketing purchases, depending on the specific natural gas contract. Once settled, the amount paid or received for the contract is recorded in gas marketing sales or gas marketing purchases, as appropriate.

During the quarter, fair value adjustments on derivative instruments reduced the margin on gas marketing sales by $20 million as the favourable fair value at March 31, 2013 was $22 million compared to the $42 million favourable fair value position at the

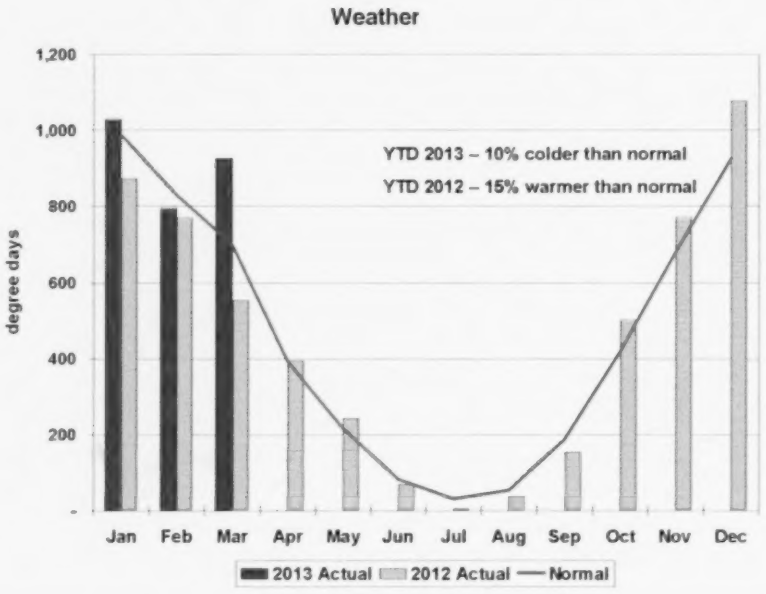
end of 2012. With natural gas market prices improving from 2012 year end, the differential between the average selling price and the average market price on natural gas sales contracts diminished resulting in the decline in fair value adjustments. To put this into context, at the end of March the average selling price of natural gas sales contracts was $3.80 per GJ, compared to an average market price of $3.51 per GJ. By comparison, at the end of 2012 the average selling price was $3.72 per GJ and the average market price was $3.18 per GJ.

The Corporation's gas marketing natural gas in storage is carried at the lower of cost and net realizable value. At each reporting period, the Corporation measures the net realizable value of gas marketing natural gas in storage based on forward market prices. Low natural gas prices in recent years have left the net realizable value of gas marketing natural gas in storage below cost resulting in a downward revaluation of inventory. However, for the first quarter of 2013 future short-term market prices improved from the end of 2012. At the same time, the Corporation lowered its average inventory cost, thereby reducing the difference between the cost of inventory and its net realizable value. As a result, the Corporation recorded an $8 million improvement in the revaluation of natural gas in storage, from $24 million at the end of 2012 to $16 million at the end of March 2013. If forward natural gas prices continue to improve in relation to the cost of the Corporation's gas marketing inventory, SaskEnergy will record an additional upward revaluation to recognize the increase in net realizable value, up to a maximum of the original cost. Otherwise, the $16 million revaluation will result in improved margins in the future, as contracts are settled by virtue of the lower carrying value of natural gas in storage.

The realized margin on gas marketing sales for the three month period, which removes fair value adjustments on financial instruments and the revaluation of natural gas in storage, was $9 million. While the Corporation increased the volume sold, relatively stable natural gas prices limited the margin on these transactions resulting in a $2 million decline when compared to the same period in 2012.

Delivery Revenue

The Corporation earns delivery revenue based on the volume of natural gas delivered to distribution customers plus a basic monthly charge. Delivery revenue of $74 million for the first quarter of 2013 was $13 million above the same period in 2012. Since most of the natural gas delivered to customers is used for space heating purposes, the volume is directly impacted by the weather during the winter months. First quarter temperatures were 10% colder than normal while the first quarter of 2012 was 15% warmer than normal. These extremes quarter-over-quarter resulted in 25% colder weather and drove a 5.5 PJ increase in the volume of natural gas delivered to distribution customers. The significant customer growth from the prior year also resulted in additional delivery volumes as well as basic monthly charge revenue, which added to the increase in delivery revenue when compared to 2012.



As was experienced in 2012, the variability of winter weather has a significant impact on the volume of natural gas delivered to customers. Consequently, the relatively high level of delivery revenue recognized during the first quarter of 2013 may or may not continue throughout the remainder of the year.

Transportation and Storage Revenue

The Corporation's subsidiary, TransGas, provides receipt and delivery transportation through the use of the TransGas Energy Pool (TEP), a notional point where producers, marketers and end-users can match supplies to demand. On the receipt side, the Corporation offers both firm and interruptible transportation from points of receipt to TEP. On the delivery side, the Corporation offers firm and interruptible service for gas delivered from TEP to export, as well as to the intra-Saskatchewan market. Integral to the Corporation's transmission system are several strategically located natural gas storage sites with the capacity to provide operational flexibility along with a highly reliable and competitive natural gas storage service.

The recent low market prices for natural gas have led to a significant decline in natural gas drilling in Western Canadian conventional gas reservoirs, including those in Saskatchewan. At the same time, low market prices combined with the expansion of the provincial economy have resulted in increased demand within the industrial sector, transitioning

Saskatchewan from a net exporter to a net importer of natural gas. Consequently, the Corporation has experienced an increase in deliveries within Saskatchewan as well as an increase in volumes imported from Alberta, adding a significant degree of cost pressure to the transmission system.

During the first quarter of 2013, higher contracted deliveries within Saskatchewan, along with an increase to transportation and storage rates, led to a $2 million increase in transportation and storage revenue when compare to last year. Effective March 1, 2013 the Corporation increased transportation rates by an average 1.4% and storage rates by an average 6.4% for an overall average 2.5% increase. The rate increase was primarily due to increased costs incurred by the Corporation to ensure continued high quality, safe and reliable service for its customers, including an increased focus on system integrity, emergency response and public awareness. The storage rate increase was impacted by expansions that have occurred over the last several years, during which time the Corporation's storage rates decreased. With this rate increase, the Corporation's storage rates will still average less than in 2005.

Customer Capital Contribution Revenue

The Corporation receives capital contributions from customers in exchange for the construction of new, customer-specific service connections. These contributions, less potential refunds, are recognized as revenue once the related property, plant and equipment is available for use. The Corporation experienced high levels of distribution system customer connections during the first quarter of the year, leading to a $1 million increase in customer capital contribution revenue. The volume and magnitude of these contributions can vary significantly period over period as varying factors influence their receipt.

Other Revenue

Other revenue, primarily consisting of revenue from natural gas processing operations and royalties, of $4 million was comparable with the first quarter of 2012. The Corporation's natural gas processing operations include gas processing at two separate gas plants and the sale of natural gas liquids from the processing operations. Royalty revenue is generated from a gross overriding royalty on over 450 natural gas-producing properties in Saskatchewan and Alberta.

Other Expenses

Employee benefits include the salaries, wages and benefits provided to the Corporation's employees, less allocations to capital assets as a result of employee work on capital projects. Total employee benefits expense of $23 million for the first quarter of 2013 was $1 million greater than the prior year. While the level of full-time equivalent employees was the same as 2012, salaries and wages were higher mainly due to an economic increase for employees.

Despite rising cost pressures, operating and maintenance expense of $19 million for the first three months of 2013 was consistent with 2012. This is a testament to the Corporation's commitment to finding innovative ways to improve efficiency while containing costs. Through this commitment, the Corporation has improved processes and managed resources to counter such cost drivers as continued customer growth and non-controllable increases from third parties. Consistent with the Crown Sector Priorities, the Corporation has supplemented its delivery capabilities through outsourcing and procurement of services in order to efficiently meet customer needs. By using external contractors, as well as process improvements like four-party trenching, the Corporation has been able to keep up with increased customer demand for services. Through the New West Partnership Agreement, the Corporation was able to gain access to a broader and more diverse array of service providers allowing the implementation of innovative solutions that helped to lessen the impact of cost increases.

Depreciation and amortization expense of $20 million for the period ending March 31, 2013 increased $2 million from the same period in 2012 partially driven by the significant level of capital expenditures throughout 2012 that led to a higher capital asset base at the beginning of 2013. In addition, the results of an independent third party depreciation study were implemented on the Transmission Utility assets during the first quarter of 2013. As a result of the study, the estimated remaining useful lives of existing transmission and storage assets, with the exception of compression assets, were adjusted. As a change in estimate, the impact was applied prospectively commencing January 1, 2013 and resulted in a $1 million increase in depreciation and amortization expense for the quarter. Additions to the Transmission Utility assets, including those acquired during the quarter, are depreciated at the new rates.

Saskatchewan taxes of $2 million, which include corporate capital taxes paid to the Province and grants-in-lieu of taxes paid to municipalities, were consistent with the prior year's first quarter.

Net finance expenses, before the impact of fair value adjustments on debt retirement funds, were $9 million for the first quarter of 2013. During 2012, additional long-term debt was required to fund the significant level of capital expenditures resulting in higher interest on long-term debt. However, lower interest rates on short-term debt offset the increase in long-term debt interest resulting in consistent net finance expense quarter-over-quarter.

Liquidity and Capital Resources

(millions)	Three months ended March 31 2013	2012	Change
Cash provided by operating activities	$ 78	$ 57	$ 21
Cash used in investing activities	(24)	(32)	8
Cash used in financing activities	(53)	(45)	(8)
Increase (decrease) in cash during the period	$ 1	$ (20)	$ 21

Cash from operations and debt borrowed from the Province of Saskatchewan's General Revenue Fund are the primary sources of liquidity and capital for SaskEnergy. Sources of liquidity include Order in Council authority to borrow up to $400 million in short-term loans from the Province's General Revenue Fund and a $35 million uncommitted line of credit with the Toronto-Dominion Bank. Over the longer term, *The SaskEnergy Act* allows the Corporation to borrow up to $1,700 million.

Cash from operating activities was $78 million for the first three months of 2013, an increase of $21 million from the same period last year. Colder than normal weather resulted in increased cash flow for the Distribution Utility.

Cash used in investing activities totaled $24 million for the first three months of the year, with most of this directed toward expanding the capacity and maintaining the integrity of the Corporation's extensive distribution and transmission systems. The high level of capital investment reflects not only the growth in Saskatchewan, but also the Corporation's continued commitment to enhance its already robust safety programming and integrity systems. Capital investment was $8 million below the first three months of 2012 as 25% colder weather delayed some of the Corporation's planned investment.

Cash used for financing activities in the first three months of 2013 was $53 million as the Corporation reduced its short-term debt balances by $30 million and paid $11 million in dividends to its parent, CIC. SaskEnergy's debt to equity ratio is currently 57% debt and 43% equity, consistent with the Corporation's long-term target.

Outlook

For the remainder of 2013, the Corporation plans to spend $207 million on capital expenditures to meet customer needs and ensure the continued reliability of the transmission and distribution systems. This level of expenditures is expected to be maintained in the upcoming years. In alignment with the Government of Saskatchewan's Crown Sector Priorities, SaskEnergy will invest approximately $1 billion in capital projects between 2013 and 2017, delivering initiatives related to customer growth, system integrity and supply acquisition, among others. The Corporation will also have $424 million in anticipated financial obligations coming due during the next 12 months, including $245 million short-term debt, $81 million accounts payable, $7 million dividends payable and $91 million of long-term debt principal and interest.

The Corporation is well-positioned to fund future capital expenditures and financial obligations through its consistent operating cash flows and debt available through the Province. Given the Province's "AAA" credit rating, the Corporation is able to take advantage of historically low interest rates to fund these expenditures, matching the multi-generational life expectancy of the capital assets. Each year, with the cooperation and consultation of the Province, CIC and management, the Corporation prepares a Debt Management Plan that factors the current interest rate environment with liquidity requirements to plan for short- and long-term borrowings for the coming years. In addition, the Corporation's strategic objective designed to inject natural gas into storage during low priced periods and hold the gas for resale in future periods will generate additional margins and cash flow for the Corporation.

Subsequent to the end of the first quarter, the Corporation put forward a delivery service rate application that, if approved, would increase the volume-based delivery charge. The proposed two-year delivery service rate increase would have a total bill impact of 2.1% for an average residential customer effective September 1, 2013 with a 1.2% annual increase effective September 1, 2014. Increased costs related to safety and pipeline integrity programs are the primary drivers behind the Corporation's application to the SRRP. The Corporation's increased investment in public safety reflects the higher safety standards being implemented throughout the industry. Safety-related operating costs are also rising. Line locates and leak surveys are required at increasing levels, and the Corporation's pipeline infrastructure continues to expand to accommodate the most customer growth seen in a generation. Multi-year rate applications, common practice across Canada, allow for better long-term budgeting for both customers and the Corporation over a longer period. Productivity improvements and efficiency measures have helped offset additional delivery rate pressures as the Corporation has achieved $22 million in efficiencies since 2009, with further $5 million in efficiencies targeted for 2013. The Corporation, through its alignment with the Crown Sector Priorities, remains committed to delivering safe, reliable and affordable services to its customers at competitive prices and, despite the rate increase, still offers the lowest residential delivery rates in Canada.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(millions)	Notes	As at March 31, 2013 (unaudited)	As at December 31, 2012 (audited)
Assets			
Current assets			
Cash		$ 3	$ 2
Trade and other receivables		140	119
Natural gas in storage held for resale	4	215	238
Inventory of supplies		11	11
Debt retirement funds		2	2
Fair value of derivative instruments		38	53
		409	425
Intangible assets		39	37
Property, plant and equipment		1,506	1,501
Debt retirement funds		76	74
		$ 2,030	$ 2,037
Liabilities and Province's equity			
Current liabilities			
Short-term debt		$ 245	$ 275
Trade and other payables		81	105
Dividends payable		7	11
Current portion of long-term debt		50	50
Deferred revenue		49	41
Fair value of derivative instruments		44	58
		476	540
Employee future benefits		12	12
Provisions		19	18
Deferred revenue		9	9
Long-term debt		762	762
		1,278	1,341
Province's equity			
Equity advances		72	72
Retained earnings		680	624
		752	696
		$ 2,030	$ 2,037

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(unaudited)

(millions)	Notes	For the Three Months Ended March 31, 2013 Income before Unrealized Market Value Adjustments	Unrealized Market Value Adjustments (Note 7)	Total	For the Three Months Ended March 31, 2012 Income before Unrealized Market Value Adjustments	Unrealized Market Value Adjustments (Note 7)	Total
Revenue							
Natural gas sales	8	$ 195	$ (23)	$ 172	$ 151	$ 14	$ 165
Delivery		74	-	74	61	-	61
Transportation and storage		23	-	23	21	-	21
Customer capital contributions		5	-	5	4	-	4
Other		3	-	3	4	-	4
		300	(23)	277	241	14	255
Expenses							
Natural gas purchases (net of change in inventory)	8	170	(30)	140	133	48	181
Employee benefits		23	-	23	22	-	22
Operating and maintenance		19	-	19	19	-	19
Depreciation and amortization		20	-	20	18	-	18
Saskatchewan taxes		2	-	2	2	-	2
		234	(30)	204	194	48	242
Income before the following		66	7	73	47	(34)	13
Finance income		1	(1)	-	2	(2)	-
Finance expenses		(10)	-	(10)	(11)	-	(11)
Net finance expenses		(9)	(1)	(10)	(9)	(2)	(11)
Total net income and comprehensive income		$ 57	$ 6	$ 63	$ 38	$ (36)	$ 2

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(unaudited)

(millions)	Retained Earnings	Equity Advances	Other Components of Equity	Total
Balance as at January 1, 2012	$ 544	$ 72	$ -	**$ 616**
Comprehensive income	2	-	-	**2**
Dividends	(6)	-	-	**(6)**
Balance as at March 31, 2012	$ 540	$ 72	$ -	**$ 612**
Balance as at January 1, 2013	$ 624	$ 72	$ -	**$ 696**
Comprehensive income	63	-	-	**63**
Dividends	(7)	-	-	**(7)**
Balance as at March 31, 2013	$ 680	$ 72	$ -	**$ 752**

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited)

(millions)	Notes	For the Three Months Ended March 31 2013	2012
Operating activities			
Net income		**$ 63**	$ 2
Add (deduct) items not requiring an outlay of cash			
Net change in fair value of derivative instrument assets and liabilities	7	**1**	9
Change in revaluation of natural gas in storage to net realizable value	7	**(8)**	25
Depreciation and amortization		**20**	18
Net finance expenses		**10**	11
Gain on disposal of assets		**(2)**	-
		84	65
Net change in non-cash working capital related to operations	9	**(6)**	(8)
Cash provided by operating activities		**78**	57
Investing activities			
Additions to intangible assets		**(2)**	(3)
Additions to property, plant and equipment		**(23)**	(29)
Proceeds on disposal of assets		**1**	-
Cash used in investing activities		**(24)**	(32)
Financing activities			
Debt retirement funds installments		**(2)**	(1)
Decrease in short-term debt		**(30)**	(174)
Dividends paid		**(11)**	(9)
Proceeds from long-term debt		**-**	147
Interest paid		**(10)**	(8)
Cash used in financing activities		**(53)**	(45)
Increase (decrease) in cash and cash equivalents		**1**	(20)
Cash and cash equivalents, beginning of period		**2**	21
Cash and cash equivalents, end of period		**$ 3**	$ 1

(See accompanying notes)

For the Three Months Ended March 31, 2013

1. General information

SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan provincially owned Crown corporation operating under authority of *The SaskEnergy Act*. The address of SaskEnergy's registered office and principal place of business is 1777 Victoria Avenue, Regina, Saskatchewan, Canada S4P 4K5.

The Corporation owns and operates natural gas-related businesses located both within and outside Saskatchewan. The condensed consolidated financial statements should not be taken as indicative of the performance to be expected for the full year due to the seasonal nature of the natural gas business.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a Saskatchewan provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC. As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

2. Basis of preparation

a. Statement of compliance

The Corporation's unaudited condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). These condensed consolidated financial statements do not include all the information required for the Corporation's annual consolidated financial statements. Accordingly, these statements should be read in conjunction with the annual report for the year ended December 31, 2012.

The condensed consolidated financial statements were authorized for issue by the Board of Directors on May 23, 2013.

b. Basis of measurement

The condensed consolidated financial statements have been prepared on the historical cost basis except where otherwise noted.

c. Functional and presentation currency

These condensed consolidated financial statements are presented in Canadian dollars, the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest million.

d. Use of estimates and judgments

In the application of the Corporation's accounting policies management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised as well as any future periods affected.

Information about critical judgments in applying accounting policies that have a significant effect on the amounts recognized in the condensed consolidated financial statements include:

Revenue recognition related to unbilled revenue
Existence of decommissioning liabilities

2. Basis of preparation (continued)

Information about significant management estimates and assumptions that have a significant risk of resulting in a material adjustment within the next financial period include:

- Estimated unbilled revenue
- Net realizable value of natural gas in storage held for resale
- Fair value of financial and derivative instruments
- Useful lives and amortization rates for intangible assets
- Useful lives and depreciation rates for property, plant and equipment
- Estimated unearned customer capital contributions
- Employee future benefits and underlying actuarial assumptions
- Estimated future cost of decommissioning liabilities

3. Summary of significant accounting policies

The accounting policies, as detailed in Note 3 to the consolidated financial statements for the year ended December 31, 2012, have been applied consistently, by the Corporation and its subsidiaries, to all periods presented in these condensed consolidated financial statements, with the exception of the changes in accounting policies identified below.

a. Changes in accounting estimates

Effective January 1, 2013, the results of an independent third party depreciation study were implemented on the property, plant and equipment and intangibles of TransGas Limited, the Corporation's wholly owned subsidiary. As a change in estimate, the impact was applied prospectively commencing January 1, 2013 and resulted in a $1 million increase in depreciation and amortization expense for the quarter. New transmission assets acquired during the quarter were depreciated at the new rates, the rates that will be used for future additions.

b. Changes in accounting policies

Effective January 1, 2013, the Corporation adopted amendments to IAS 19 *Employee Benefits* in accordance with the transitional provisions of the standard. The amendments, which impact the Corporation's defined benefit Retiring Allowance Plan, require the Corporation to recognize actuarial gains and losses immediately in other comprehensive income and all current service costs and interest expense immediately in net income. The Corporation will transfer any actuarial gains or losses from other equity to retained earnings in the year it is recognized in other comprehensive income.

There was no impact on the Corporation's financial position from the application of this standard. Effective the beginning of the comparative period, January 1, 2012, the $1 million in accumulated actuarial losses that was reclassified to other equity was immediately transferred to retained earnings in accordance with the Corporation's accounting policy. There was also no impact on the Corporation's condensed consolidated statement of comprehensive income for either the three month period ended March 31, 2013 or the comparative period as the Corporation does not complete actuarial valuations until December 31 of each year. The Corporation will restate its net income for the year ended December 31, 2012 to remove a $1 million actuarial loss from employee benefits that will then be recognized in other comprehensive income and subsequently transferred directly to retained earnings.

In addition to IAS 19, the Corporation adopted the following other new and amended IFRS effective January 1, 2013:

- IFRS 7 *Financial Instruments: Disclosures*
- IFRS 10 *Consolidated Financial Statements*
- IFRS 11 *Joint Arrangements*
- IFRS 12 *Disclosure of Interests in Other Entities*
- IFRS 13 *Fair Value Measurement*
- IAS 27 *Separate Financial Statements*
- IAS 28 *Investments in Associates and Joint Ventures*

The adoption of these standards had no material impact on the condensed consolidated financial statements. Any new disclosure requirements will be included in the Corporation's consolidated financial statements for the year ended December 31, 2013.

3. Summary of significant accounting policies (continued)

c. Future changes in accounting policies

The following new and amended standards are not yet effective and have not been applied in preparing these consolidated financial statements:

IFRS 9 *Financial Instruments* – reduces measurement classification of financial assets to one of two categories: amortized cost or fair value. The classification is based on an entity's business model for managing the asset and the contractual cash flow characteristics of the asset. This standard is effective for annual periods beginning on or after January 1, 2015.

IAS 32 Financial Instruments: Presentation – clarifies certain items regarding offsetting financial assets and financial liabilities. The amendments are effective for annual periods beginning on or after January 1, 2014.

SaskEnergy is continuing to review these new and amended standards and has not yet determined the impact on its consolidated financial statements.

4. Natural gas in storage held for resale

(millions)	As at March 31, 2013	As at December 31, 2012
Cost	$ 231	$ 262
Revaluation to net realizable value	(16)	(24)
	$ 215	$ 238

With the decline in natural gas market prices over the last few years, the net realizable value of natural gas in storage at the end of the period has fallen $16 million below cost (December 31, 2012 - $24 million).

As at March 31, 2013, the Corporation expects that $98 million of the current inventory value will be sold or consumed within the next year and $117 million of the current inventory value will be sold or consumed after more than a year.

5. Financial and derivative instruments and risk management

a. Financial and derivative instruments

(millions)	Classification	Fair Value Hierarchy	As at March 31, 2013 Carrying Amount	As at March 31, 2013 Fair Value	As at December 31, 2012 Carrying Amount	As at December 31, 2012 Fair Value
Financial and derivative assets						
Cash	FVTPL	Level 1	**$ 3**	**$ 3**	$ 2	$ 2
Trade and other receivables	LAR	-	**140**	**140**	119	119
Debt retirement funds	FVTPL	Level 2	**78**	**78**	76	76
Fair value of derivative instrument assets	FVTPL	Level 2	**38**	**38**	53	53
Financial and derivative liabilities						
Short-term debt	OL	-	**245**	**245**	275	275
Trade and other payables	OL	-	**81**	**81**	105	105
Dividends payable	OL	-	**7**	**7**	11	11
Long-term debt	OL	Level 2	**812**	**982**	812	993
Fair value of derivative instrument liabilities	FVTPL	Level 2	**44**	**44**	58	58

Classification details:
FVTPL - fair value through profit or loss
LAR - loans and receivables
OL - other liabilities

The fair value of the above instruments is based on the following:

i. Debt retirement funds - The market value of the investments held in debt retirement funds as determined by Saskatchewan's Ministry of Finance using information provided by investment dealers. To the extent possible, valuations reflect indicative secondary pricing for these securities. In all other circumstances, valuations are determined with reference to similar actively traded instruments.

ii. Fair value of derivative instruments - The fair value of natural gas derivative instruments is calculated daily and is based on quoted market prices. The Corporation obtains information from sources such as the New York Mercantile Exchange and the Natural Gas Exchange, independent price publications and over-the-counter broker quotes.

iii. Long-term debt - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

iv. Other financial instruments - The fair value of other financial instruments, including cash, trade and other receivables, bank indebtedness, short-term debt, trade and other payables and dividends payable approximate their carrying amounts due to the short-term nature of these instruments.

5. Financial and derivative instruments and risk management (continued)

As at March 31, 2013 natural gas derivative instruments had the following fair values, notional values and maturities:

(millions)	2014	2015	2016	2017	2018	Total
Physical natural gas contracts						
Fair value	$ (7)	$ 4	$ 2	$ 1	$ -	$ -
Notional value	33	32	13	(4)	(8)	66
Natural gas price swaps						
Fair value	-	(4)	(1)	(1)	-	(6)
Notional value	-	(4)	(1)	(1)	-	(6)
Total						
Fair value	$ (7)	$ -	$ 1	$ -	$ -	$ (6)
Notional value	$ 33	$ 28	$ 12	$ (5)	$ (8)	$ 60

Fair value - increase (decrease) in net income
Notional value - estimated undiscounted net cash inflow (outflow)

Notional values are an approximation of future undiscounted net cash flows. For physical natural gas contracts, the notional value is based on the contract price. For natural gas price swaps, the notional value is the difference between the contract price and the market price. Where contract prices are referenced to an index price that has not yet been fixed, the market price is used to estimate the contract price.

The Corporation's natural gas contracts are subject to master netting agreements. While the Corporation does not net these contracts within the consolidated financial statements, it does settle with its counterparties on a net basis. The net amounts for both fair value and notional value are disclosed in the above table.

The fair value of derivative instruments is presented in the consolidated financial position as follows:

(millions)	As at March 31, 2013	As at December 31, 2012
Fair value of derivative instrument assets	$ 38	$ 53
Fair value of derivative instrument liabilities	(44)	(58)
	$ (6)	$ (5)

b. Risk management

Through the normal course of business, the Corporation has exposure to market risk (natural gas price risk, interest rate risk and foreign currency risk), liquidity risk and credit risk. The Board of Directors, through the Audit and Finance Committee, has the overall responsibility for the establishment and oversight of the Corporation's risk management efforts. The Corporation seeks to manage the financial impact of natural gas price risk by using derivative instruments to manage its exposure. The Corporate Derivatives Policy and other risk management policies and strategies, approved by the Board of Directors and reviewed regularly by the Audit and Finance Committee, provide the framework within which the Corporation may use derivative instruments to manage its risks. The objectives, policies and processes for managing risk were consistent with the prior period, and significant risks are discussed below.

i. Natural gas price risk

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price of natural gas may be fixed within the contract or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used to fix the settlement amount. The types of natural gas derivative instruments the Corporation may use for price risk management include natural gas price swaps, options, swaptions and forward contracts.

5. Financial and derivative instruments and risk management (continued)

Based on the Corporation's period end closing positions, an increase of $1.00 per Gigajoule in natural gas prices would have increased net income, through an increase in the fair value of natural gas derivative instruments, by $19 million (December 31, 2012 - $36 million). Conversely, a decrease of $1.00 per Gigajoule would have decreased net income, through a decrease in the fair value of natural gas derivative instruments, by $19 million (December 31, 2012 - $36 million).

ii. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. The Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The contractual maturities of the Corporation's financial obligations, including interest payments and the impact of netting agreements, as at March 31, 2013 were as follows:

		Contractual Maturities				
(millions)	Carrying Amount	Less Than 1 Year	1 - 2 Years	3 - 5 Years	More Than 5 Years	Total
Short-term debt	$ 245	$ 245	$ -	$ -	$ -	**$ 245**
Trade and other payables	81	81	-	-	-	**81**
Dividends payable	7	7	-	-	-	**7**
Derivative instruments	44	-	-	1	-	**1**
Long-term debt	812	91	88	309	893	**1,381**
	$ 1,189	$ 424	$ 88	$ 310	$ 893	**$ 1,715**

At period end, the Corporation's borrowing capacity, together with relatively stable operating cash flows, provide sufficient liquidity to fund these contractual obligations.

The Corporation has posted a $15 million letter of credit with NGX Financial Inc. (NGX) as security for natural gas purchases and sales conducted by the Corporation on the NGX natural gas exchange in Alberta. NGX may draw upon the letter of credit if the Corporation fails to make timely payment for, or delivery of, natural gas as per the related contract.

iii. Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial or derivative instrument fails to meet its contractual obligations. The Corporation is exposed to credit risk through cash, trade and other receivables, debt retirement funds and derivative instrument assets. Credit risk related to cash and debt retirement funds is minimized by dealing with institutions that have strong credit ratings and holding highly-rated financial securities.

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial and derivative instruments. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties and may require letters of credit and other forms of security. At period end, the maximum credit exposure to a single counterparty was $11 million (December 31, 2012 - $19 million).

6. Commitments and contingencies

At period end, the Corporation forecasted to spend $207 million (December 31, 2012 - $236 million) on capital projects in 2013, and the Corporation had $59 million (December 31, 2012 - $59 million) of outstanding contractual commitments for the procurement of goods and services in the future.

7. Unrealized market value adjustments

(millions)	For the Three Months Ended March 31 2013	2012
Change in fair value of debt retirement funds	$ (1)	$ (2)
Change in fair value of natural gas derivative instruments	(1)	(9)
Change in revaluation of natural gas in storage to net realizable value	8	(25)
	$ 6	$ (36)

8. Natural gas sales and purchases

(millions)	For the Three Months Ended March 31 2013 Commodity	2013 Gas Marketing	2013 Total	2012 Commodity	2012 Gas Marketing	2012 Total
Natural gas sales						
Natural gas sales to commodity customers	$ 96	$ -	$ 96	$ 95	$ -	$ 95
Realized on natural gas derivative instruments	-	99	99	4	52	56
Fair value of natural gas derivative instruments	-	(23)	(23)	-	14	14
	96	76	172	99	66	165
Natural gas purchases						
Realized on natural gas derivative instruments	(80)	(90)	(170)	(92)	(41)	(133)
Fair value of natural gas derivative instruments	19	3	22	(19)	(4)	(23)
Revaluation of natural gas in storage	-	8	8	-	(25)	(25)
	(61)	(79)	(140)	(111)	(70)	(181)
	$ 35	$ (3)	$ 32	$ (12)	$ (4)	$ (16)

9. Net change in non-cash working capital related to operations

(millions)	For the Three Months Ended March 31 2013	2012
Trade and other receivables	$ (21)	$ (15)
Natural gas in storage held for resale	31	26
Trade and other payables	(24)	(29)
Deferred revenue	8	10
	$ (6)	$ (8)